

## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 25, 2008

To the Township Board  
Otsego Lake Township  
Otsego County, Michigan

We have audited the financial statements of Otsego Lake Township for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **Auditors' Responsibility under U.S. Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of Otsego Lake Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances,

makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient, competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financials are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Significant Accounting Policies**

The significant accounting policies are described in Note 1 to the financial statements.

### **Other Communications**

Auditing standards call for us to inform you of other significant issues such as, but not limited to: 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **Internal Control Matters**

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to

initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider each of the following significant deficiencies to be a material weakness.

#### ***Segregation of Duties***

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected in the normal course.

#### ***Reporting Financial Data***

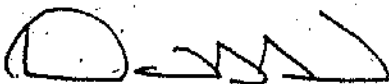
The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Organization has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Organization has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Organization has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other organizations of its size.

#### **Summary**

This information is intended solely for the use of the Board and Management of Otsego Lake Township and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the foregoing comments, and would be happy to discuss any of these or other questions that you might have at your convenience.

Respectfully Yours,



**Daniel S. Smith, CPA**

**OTSEGO LAKE TOWNSHIP**  
**OTSEGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2008**

**TOWNSHIP OFFICIALS**

SUPERVISOR

THOMAS WAGAR

CLERK

LORRAINE MARKOVICH

TREASURER

CHRISTINE WOHLFEIL

ASSESSOR

FRED LINDROTH

**TRUSTEES**

MARY BROWN

TIM BAKER

# OTSEGO LAKE TOWNSHIP

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## INDEPENDENT AUDITOR'S REPORT

June 18, 2008

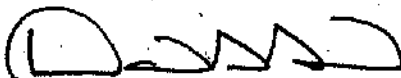
To the Township Board  
Otsego Lake Township  
Otsego County, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund activities of Otsego Lake Township as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of Otsego Lake Township as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages I - III and budgetary comparison information on pages 19 - 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Daniel S. Smith, CPA

# **OTSEGO LAKE TOWNSHIP**

## **OTSEGO LAKE TOWNSHIP MANAGEMENT'S DISCUSSION & ANALYSIS YEAR ENDED MARCH 31, 2008**

This section of Otsego Lake Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

Township assets at March 31, 2008, as reported in the Statement of Net Assets, totaled approximately \$2,186,000 for governmental activities. Of the total Township assets, approximately \$598,000 represents capital assets net of depreciation.

Overall revenues were approximately \$822,000 (\$80,000 from program revenues and \$742,000 from general revenues). Overall expenses approximated \$682,500.

The Township did not incur any new debt instruments during the year, however, debt service payments were made totaling \$21,525. Long term debt and capital asset activity is addressed further in a subsequent section of this letter.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion & analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are Township wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities. The Township does not engage in any business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.



## **TOWNSHIP-WIDE FINANCIAL STATEMENTS**

The Township-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities; this is one method to measure the Township's financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Township are reported as governmental activities. Descriptions of governmental activities are: General Fund, Fire Fund and Liquor Fund.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

**Governmental Funds:** Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township-wide statements and the fund statements are disclosed to explain the difference between them.

**Fiduciary Funds:** The Township is a trustee or fiduciary for assets that belong to others. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belong. These activities do not appear in the Township wide financial statements since the assets do not belong to the Township.

## **FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net Assets:** The Township's combined net assets increased \$219,873 during the year ended March 31, 2008 totaling \$2,137,040.

The increase is primarily due to conservative fiscal management.

## FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

**General Fund:** This fund is used to record all activities of the Township not required to be recorded in a separate fund. This would include parks, zoning, building and grounds, legislative, administrative and elections. The major sources of revenue for the general fund are the Township tax base and the revenue sharing from the State of Michigan, with total revenues of \$463,152. The major expenses for this fiscal year include the general operating activities of the Township, totaling \$306,656.

**Fire Fund:** This fund is used to recover Fire Department activities. Its major source of revenue comes from a Township wide milage. The total levy in 2008 was \$162,860. The expenses incurred are for operational costs, totaling \$203,972.

**Trash Fund:** The revenue source for the trash fund is a special assessment district, all parcels with a dwelling are assessed. The expenses of this fund are a monthly charge for trash collection. Total revenues were \$186,233, while expenditures totaled \$171,839.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

**Capital Assets:** During the year, the Township added the following capital expenditures: Park Improvements (\$22,215), a 2007 Ford Mini-Pumper (\$82,270), fire equipment (\$3,015), and a holding tank in Michaywe (\$10,000).

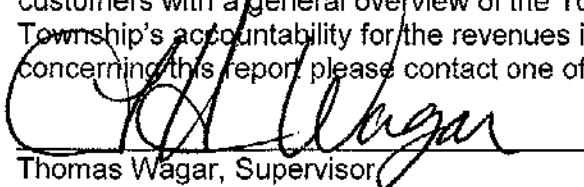
**Long-Term Debt:** The Townships only obligation is our purchase of a fire truck in 2003, and that obligation will be retired in the next year.

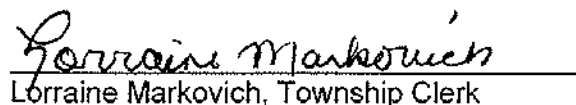
## KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township will continue to monitor the need for road improvements, seeking all sources of funding available. Additionally, the managed growth and development of the Township will remain a serious focus, while trying to work with all neighboring local units of government.

## CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact one of the following Township officials.

  
Thomas Wagar, Supervisor

  
Lorraine Markovich, Township Clerk

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF NET ASSETS  
MARCH 31, 2008**

**ASSETS**

**Current Assets:**

Cash	\$ 1,000,966
Certificate of Deposit	161,975
Accounts Receivable	24,087
Due from County	40,806
Due from Current Tax Collection	360,463
	<hr/>
Total Current Assets	1,588,297
	<hr/>

**Capital Assets:**

Capital Assets	1,342,692
Less, Accumulated Depreciation	(744,738)
	<hr/>
Total Capital Assets	597,954
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<b>Total Assets</b>	<b>2,186,251</b>
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**LIABILITIES**

**Current Liabilities:**

Accounts Payable	23,999
State Payroll Taxes Payable	4,287
Current Portion - Note Payable	20,925
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<b>Total Current Liabilities</b>	<b>49,211</b>
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**NET ASSETS**

Net Assets - Unrestricted	1,170,059
Net Assets - Restricted	389,952
Investment in Capital Assets, Net of Debt	577,029
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<b>Total Net Assets</b>	<b>\$ 2,137,040</b>
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**OTSEGO LAKE TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>P R O G R A M   R E V E N U E S</b>				<b>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</b>
	<b>EXPENSES</b>	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS &amp; CONTRIBUTION</b>	<b>CAPITAL GRANTS &amp; CONTRIBUTION</b>	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ (181,135)	\$ 63,900	\$ -	\$ -	(117,235)
Trash Collection	(171,839)				171,839
Fire Protection	(127,188)	975			(126,213)
Buildings and Grounds	(59,449)	2,510	8,152		(48,787)
Assessing	(43,720)				(43,720)
Parks and Recreation	(4,295)				(4,295)
Cemetery	(4,252)	2,300			(1,952)
Liquor Law	(2,972)		1,820		(1,152)
Public Works	(7,050)				(7,050)
Interest Expense	(600)				(600)
Total Governmental Activities	(602,500)	69,685	9,972	-	(522,843)
<b>GENERAL REVENUES</b>					
Property Taxes					492,646
State Shared Revenues					174,202
Interest Earnings					63,582
Swamp Tax Revenue					6,754
Miscellaneous					5,532
<b>CHANGE IN NET ASSETS</b>					742,716
					219,873
<b>NET ASSETS - BEGINNING OF YEAR</b>					1,917,167
<b>NET ASSETS - END OF YEAR</b>					\$ 2,137,040

See accompanying notes to the financial statements

**OTSEGO LAKE TOWNSHIP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2008**

	<b>GENERAL FUND</b>	<b>FIRE FUND</b>	<b>TRASH FUND</b>	<b>TOTAL</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 822,073	\$ 148,294	\$ 30,599	\$ 1,000,966
Certificate of Deposit	161,975	-	-	161,975
Accounts Receivable	24,087	-	-	24,087
Delinquent Property Taxes Receivable	12,601	12,219	15,986	40,806
Due from Current Tax Collection	159,445	79,427	121,591	360,463
Due From General Fund	-	-	7,578	7,578
<b>Total Assets</b>	<b>1,180,181</b>	<b>239,940</b>	<b>175,754</b>	<b>1,595,875</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts Payable	-	23,999	-	23,999
Employee Taxes Withheld	2,544	1,743	-	4,287
Due to the Trash Fund	7,578	-	-	7,578
<b>Total Liabilities</b>	<b>10,122</b>	<b>25,742</b>	<b>-</b>	<b>35,864</b>
<b>Fund Equity</b>				
Fund Balance - Unreserved	1,170,059	-	-	1,170,059
Fund Balance - Reserved	-	214,198	175,754	389,952
<b>Total Fund Equity</b>	<b>1,170,059</b>	<b>214,198</b>	<b>175,754</b>	<b>1,560,011</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,180,181</b>	<b>\$ 239,940</b>	<b>\$ 175,754</b>	<b>\$ 1,595,875</b>

**OTSEGO LAKE TOWNSHIP  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008**

<b>Total Fund Balance - Governmental Activities (Page 4)</b>	<b>\$ 1,560,011</b>
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Amounts reported for governmental activities in the Statement of Net Assets (page 2) are different because:

Capital assets used in governmental activities are not financial resources and therefore not recorded in the funds	597,954
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Long-term liabilities, including notes and interest payable are not due and payable in the current period and therefore are not reported in the funds	(20,925)
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<b>Total Net Assets - Governmental Activities (Page 2)</b>	<b>\$ 2,137,040</b>
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**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>GENERAL FUND</b>	<b>FIRE FUND</b>	<b>TRASH FUND</b>	<b>TOTAL</b>
<b>REVENUES</b>				
Taxes and Assessments	\$ 146,350	\$ 162,860	\$ 183,436	\$ 492,646
State Shared Revenue	184,174	-	-	184,174
Charges for Services	63,963	975	-	64,938
Interest	53,036	7,749	2,797	63,582
Swamp Tax	6,754	-	-	6,754
Cemetery Lots	2,300	-	-	2,300
Rents and Royalties	2,510	-	-	2,510
Refunds and Rebates	4,065	1,404	-	5,469
Total Revenues	463,152	172,988	186,233	822,373
<b>EXPENDITURES</b>				
General Government	296,634	-	-	296,634
Public Works	7,050	-	-	7,050
Public Safety	2,972	182,447	-	185,419
Debt Service	-	21,525	-	21,525
Trash Services	-	-	171,839	171,839
Total Expenditures	306,656	203,972	171,839	682,467
Excess (Deficiency) of Revenues Over Expenditures	156,496	(30,984)	14,394	139,906
Fund Balance - Beginning of Year	1,013,563	245,182	161,360	1,420,105
Fund Balance - End of Year	\$ 1,170,059	\$ 214,198	\$ 175,754	\$ 1,560,011

**OTSEGO LAKE TOWNSHIP  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008**

<b>Net Change in Fund Balances - Governmental Activities (Page 6)</b>	\$	139,906
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Amounts reported for governmental activities in the Statement of Activities (page 3) are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives		117,500
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Depreciation expense is recorded in the statement of activities but not in the fund financial statements		(58,458)
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Governmental funds do not record long-term debt; therefore, debt service payments are recorded as an expenditure. However, in the government-wide statements, long-term debt is recorded and debt service payments are applied against the outstanding balances		20,925
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<b>Change in Net Assets of Governmental Activities (Page 3)</b>	\$	219,873
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**OTSEGO LAKE TOWNSHIP  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
MARCH 31, 2008**

<b>ASSETS</b>	
Cash	<u><u>\$ 360,463</u></u>
<b>LIABILITIES</b>	
Due to Other Funds	<u>360,463</u>
<b>NET ASSETS</b>	
Net Assets	<u><u>\$ -</u></u>

See accompanying notes to the financial statements

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED MARCH 31, 2008**

**RECEIPTS**

Property Taxes and Interest	\$	5,070,256
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**DISBURSEMENTS**

Property Taxes and Interest		5,070,256
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Changes in Fiduciary Net Assets		-
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Fiduciary Net Assets - Beginning of Year		-
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Fiduciary Net Assets - End of Year	\$	-
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**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE A: ENTITY**

The Township of Otsego Lake is a general law township of the State of Michigan located in Otsego County, Michigan. It operates under an elected board and provides service to its residents in many areas including public safety, community enrichment and human services. The criteria established for determining the various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Otsego Lake Township.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of Otsego Lake Township are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Otsego Lake Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED)**

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included as program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

***General Fund*** - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

***Fire Protection Fund*** - This fund is used to account for all financial activity related to the Township's fire services. The main source of revenue is derived from property taxes and fees.

***Trash Collection Fund*** - This fund is used to account for the Township's trash pickup services. Revenues are derived from property tax assessments.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS (CONTINUED)**

***Other Funds***

***Fiduciary Fund*** - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 31, 1989.

**Government-Wide Financial Statements**

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations include transfers between funds.

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 31, 2007, are recorded as revenue in the current year. The Township's taxable value for the 2007 tax year totaled \$164,272,435.

The tax rates for the year ended March 31, 2008, were as follows:

<b>PURPOSE</b>	<b>RATE/ASSESSED VALUATION</b>
General	0.8218 mills per \$1000
Fire Protection	Special Assessment
Trash Collection	Special Assessment

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGET**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31, of each year. There are no carryover budget items.

**ACCOUNTS RECEIVABLE**

The Township has property taxes/assessments receivable in the following funds:

General	\$ 12,601
Fire Protection	12,219
Trash Collection	<u>15,986</u>
	<u>\$ 40,806</u>

These amounts are paid by a county tax revolving fund. No allowance for doubtful accounts is considered necessary at March 31, 2008.

**DUE FROM OTHER FUNDS**

At March 31, 2008, the tax collection (fiduciary fund) has not distributed \$159,445 due to the general fund, \$79,427 to the fire fund, and \$121,591 to the trash fund.

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

Estimated useful lives, in years, for depreciable assets are as follows:

Township vehicles	5-10
Buildings and improvements	25-40
Land improvements	10-20
Machinery and equipment	5-10
Infrastructure	20-40

Land and construction in progress are not depreciated.

For information describing capital assets, see Note 4.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND  
DISCOUNTS/PREMIUMS**

In government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bonds discount or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Township long-term debt currently consists of a \$100,000 note dated August 15, 2003 with Fifth Third Bank at 2.867% interest. Secured by a 2100 Gallon Fire Tanker.

Remaining payments due as follows:

	Governmental Activities		
	Principle	Interest	Total
2008	<u>20,925</u>	<u>600</u>	<u>21,525</u>



**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE C: CASH AND INVESTMENTS**

Statutory Authority

Act 217, PA 1982, authorizes the Township to deposit and invest in:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depositories of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended
- (c) Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States Government or Federal Agency obligation repurchase agreements
- (e) Banker's acceptance of United States banks
- (f) Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan

The Township's cash and investments are in accordance with statutory authority.

Cash consists of all cash on hand, checking, savings accounts, and certificates of deposit.

The bank balance of the Township's deposits was \$1,169,858 as of March 31, 2008 of which \$400,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of the cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk for each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE D: CAPITAL ASSETS**

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
Governmental Activities				
Capital assets not being depr:				
Land	\$ 24,611	\$ -	\$ -	\$ 24,611
Capital assets being depr:				
General Government	405,826	-	-	405,826
Parks	45,354	22,215	-	67,569
Public Safety	749,401	95,285	-	844,686
Subtotal	1,200,581	117,500	-	1,318,081
Accumulated depreciation:				
General Government	214,658	15,537	-	230,195
Parks	20,353	2,895	-	23,248
Public Safety	451,269	40,026	-	491,295
Subtotal	686,280	58,458	-	744,738
Net capital assets being depr.	514,301	59,042	-	573,343
Net capital assets	\$ 538,912	\$ 59,042	\$ -	\$ 597,954

Depreciation expense was charged to functions of the Township as follows:

***Governmental Activities***

General Government	\$ 15,537
Parks and Recreation	2,895
Public Safety	40,026
Total	<u>\$ 58,458</u>

**NOTE E: PENSION PLAN**

The Township of Otsego Lake contributes to the Township of Otsego Lake Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depend on the amount contributed to the participant's account and the returns earned on investments of those contributions.

**OTSEGO LAKE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2008**

**NOTE E: PENSION PLAN (CONTINUED)**

Upon the date of hire, all salaried employees are eligible to participate in the plan. Contributions made by both the Township and employees vest immediately. The participant will receive benefits at age 65 or the tenth anniversary of the date the participant commenced participation of the plan if later. The plan does not allow early retirement at age 55.

The plan requires the Township to contribute 10% of the eligible employee's wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Township contributed \$15,627 to the plan which was 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**NOTE F: WASTE (REFUSE) CONTRACT**

The Township entered into a five year contract beginning January 1, 2005 and ending December 31, 2009 with American Waste, Inc. on December 16, 2004 for weekly trash collection services. The charge is \$6.90 per unit per month for calendar years 2005 through 2007; \$7.10 per unit per month for calendar year 2008 and \$7.30 per unit per month for calendar year 2009. The total units as of December 16, 2004 were 2,011 and the Township is responsible for updating American Waste, Inc. changes to the number of units.

**NOTE G: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Property Taxes	\$ 128,905	\$ 128,905	\$ 146,350	\$ 17,445
State Shared Revenue	173,000	173,000	174,202	1,202
Swamp Tax	6,430	6,430	6,754	324
Fees for Service:				
Summer Tax Collection	13,560	13,560	13,249	(311)
Tax Administration Fee	48,000	48,000	50,651	2,651
Interest	30,000	30,000	53,036	23,036
Metro Act	8,000	8,000	8,152	152
Refunds and Rebates	6,100	6,100	4,065	(2,035)
Rents and Royalties	2,000	2,000	2,510	510
Cemetery Lots	1,000	1,000	2,300	1,300
Liquor Law Enforcement	1,825	1,825	1,820	(5)
Miscellaneous	400	400	63	(337)
<b>Total Revenues</b>	<b>419,220</b>	<b>419,220</b>	<b>463,152</b>	<b>43,932</b>
<b>EXPENDITURES</b>				
<b>General Government</b>				
<b>Township Board:</b>				
Salaries	8,150	8,150	8,150	-
Fringe Benefits	9,400	9,400	3,060	6,340
Retirement	18,000	18,000	15,627	2,373
Professional Fees	9,500	9,500	15,366	(5,866)
Insurance and Bonds	12,000	12,000	10,925	1,075
Assistance	6,000	6,000	5,374	626
Capital Outlay	3,000	3,000	4,800	(1,800)
Education and Training	6,500	6,500	4,138	2,362
Dues and Membership	3,500	3,500	3,469	31
Supplies	3,500	3,500	2,542	958
Community Promotion	4,500	4,500	2,485	2,015
Printing and Publishing	3,000	3,000	2,111	889
Transportation	700	700	615	85
Miscellaneous	1,500	1,500	4,921	(3,421)
<b>Total Township Board</b>	<b>\$ 89,250</b>	<b>\$ 89,250</b>	<b>\$ 83,583</b>	<b>\$ 5,667</b>

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FROM FINAL AMENDED BUDGET</u>
<b>Township Supervisor:</b>				
Salaries	\$ 18,695	\$ 18,695	\$ 18,695	\$ -
Office Supplies	50	50	-	50
<b>Total Township Supervisor</b>	<u>18,745</u>	<u>18,745</u>	<u>18,695</u>	<u>50</u>
<b>Election:</b>				
Salaries	2,200	2,200	2,455	(255)
Office Supplies	500	500	189	311
Operating Supplies	500	500	158	342
<b>Total Election</b>	<u>3,200</u>	<u>3,200</u>	<u>2,802</u>	<u>398</u>
<b>Township Assessor:</b>				
Salaries	36,750	36,750	36,750	-
Office Supplies	200	200	-	200
Data Processing	6,000	6,000	4,911	1,089
Operating Supplies	3,500	3,500	1,859	1,641
Education and Training	500	500	150	350
Assistance	-	-	50	(50)
<b>Total Township Assessor</b>	<u>46,950</u>	<u>46,950</u>	<u>43,720</u>	<u>3,230</u>
<b>Township Clerk:</b>				
Salaries	24,774	24,774	24,774	-
Salary - Deputy	1,000	1,000	210	790
Operating Supplies	2,000	2,000	1,402	598
Office Supplies	500	500	240	260
<b>Total Township Clerk</b>	<u>28,274</u>	<u>28,274</u>	<u>26,626</u>	<u>1,648</u>
<b>Board of Review:</b>				
Salaries	1,500	1,500	1,180	320
Educational	500	500	-	500
<b>Total Board of Review</b>	<u>2,000</u>	<u>2,000</u>	<u>1,180</u>	<u>820</u>

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Township Treasurer:</b>				
Salaries	24,774	24,774	24,774	-
Salary - Deputy	2,500	2,500	7,012	(4,512)
Operating Supplies	5,500	5,500	4,910	590
Data Processing	6,000	6,000	3,838	2,162
Summer tax collection	2,588	2,588	2,588	-
Office Supplies	500	500	347	153
<b>Total Township Treasurer</b>	<b>\$ 41,862</b>	<b>\$ 41,862</b>	<b>\$ 43,469</b>	<b>\$ (1,607)</b>
<b>Building and Grounds:</b>				
Service Contract	\$ 17,500	\$ 17,500	\$ 18,430	\$ (930)
Repair & Maintenance	15,000	15,000	11,321	3,679
Utilities	6,500	6,500	6,880	(380)
Communication	4,000	4,000	3,810	190
Capital Outlay	20,000	20,000	2,936	17,064
Supplies	1,500	1,500	843	657
Miscellaneous	500	500	314	186
<b>Total Building and Grounds</b>	<b>65,000</b>	<b>65,000</b>	<b>44,534</b>	<b>20,466</b>
<b>Planning &amp; Zoning:</b>				
Salaries	6,000	6,000	4,500	1,500
Office Supplies	1,000	1,000	-	1,000
Professional	2,500	2,500	-	2,500
Educational	1,500	1,500	280	1,220
<b>Total Planning &amp; Zoning</b>	<b>11,000</b>	<b>11,000</b>	<b>4,780</b>	<b>6,220</b>
<b>Parks &amp; Recreation:</b>				
Salaries	1,200	1,200	1,400	(200)
Park Improvements	25,000	25,000	22,215	2,785
<b>Total Parks &amp; Recreation</b>	<b>26,200</b>	<b>26,200</b>	<b>23,615</b>	<b>2,585</b>
<b>Cemetery</b>				
Salary	750	750	700	50
Improvements	10,000	10,000	2,930	7,070
<b>Total Cemetery</b>	<b>10,750</b>	<b>10,750</b>	<b>3,630</b>	<b>7,120</b>

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>Total General Government</b>	342,731	342,731	296,634	46,097
<b>Liquor Law Enforcement</b>	3,012	3,012	2,972	40
<b>Public Works</b>	214,000	214,000	7,050	206,950
<b>Total Expenditures</b>	559,743	559,743	306,656	253,087
Excess (Deficiency) of Revenues over Expenditures	(140,523)	(140,523)	156,496	297,019
<b>Fund Balance - Beginning of Year</b>	1,013,563	1,013,563	1,013,563	-
<b>Fund Balance - End of Year</b>	<u>\$ 873,040</u>	<u>\$ 873,040</u>	<u>\$ 1,170,059</u>	<u>\$ 297,019</u>

**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FIRE FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Taxes and Assessments	\$ 153,276	\$ 153,276	\$ 162,860	\$ 9,584
Ordinances	1,500	1,500	975	(525)
Interest	5,000	5,000	7,749	2,749
Miscellaneous	-	-	1,404	1,404
<b>Total Revenues</b>	<b>159,776</b>	<b>159,776</b>	<b>172,988</b>	<b>13,212</b>
<b>EXPENDITURES</b>				
Wages	40,000	40,000	29,764	10,236
Fringe Benefits	4,600	4,600	2,733	1,867
Debt Retirement	21,600	21,600	21,525	75
Repairs and Maintenance	13,750	13,750	17,271	(3,521)
Capital Outlay	66,000	89,999	97,616	(7,617)
Insurance and Bonds	15,000	15,000	12,240	2,760
Education and Training	5,500	5,500	6,198	(698)
Utilities	6,500	6,500	5,742	758
Office Supplies	11,000	11,000	4,285	6,715
Communications	1,800	1,800	1,922	(122)
Uniforms	1,500	1,500	1,213	287
Professional Fees	2,000	2,000	1,284	716
Transportation	500	500	530	(30)
Printing and Publishing	250	250	327	(77)
Office Equipment	1,000	1,000	844	156
Miscellaneous	300	300	478	(178)
<b>Total Expenditures</b>	<b>191,300</b>	<b>215,299</b>	<b>203,972</b>	<b>11,327</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(31,524)</b>	<b>(55,523)</b>	<b>(30,984)</b>	<b>24,539</b>
<b>Fund Balance - Beginning of Year</b>	<b>245,182</b>	<b>245,182</b>	<b>245,182</b>	<b>-</b>
<b>Fund Balance - End of Year</b>	<b>\$ 213,658</b>	<b>\$ 189,659</b>	<b>\$ 214,198</b>	<b>\$ 24,539</b>



**OTSEGO LAKE TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
TRASH FUND  
FOR THE YEAR ENDED MARCH 31, 2008**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Taxes and Assessments	177,606	177,606	183,436	5,830
Interest	2,500	2,500	2,797	297
<b>Total Revenues</b>	<b>180,106</b>	<b>180,106</b>	<b>186,233</b>	<b>6,127</b>
<b>EXPENDITURES</b>				
Trash Collection Service	175,000	175,000	171,549	3,451
Professional Fees	750	750	290	460
<b>Total Expenditures</b>	<b>175,750</b>	<b>175,750</b>	<b>171,839</b>	<b>3,911</b>
Excess (Deficiency) of Revenues Over Expenditures	4,356	4,356	14,394	10,038
<b>Fund Balance - Beginning of Year</b>	<b>161,360</b>	<b>161,360</b>	<b>161,360</b>	<b>-</b>
<b>Fund Balance - End of Year</b>	<b>165,716</b>	<b>165,716</b>	<b>175,754</b>	<b>10,038</b>